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TAGS: EPET ECON ENRG QA
SUBJECT: AMERICAN OIL & GAS ATTORNEY ANALYZES QATAR'S LNG INDUSTRY

REF: DOHA 435

Classified By: Amb Joseph LeBaron for reason 1.4 (b) and (d)

(C) KEY POINTS

-- In a July 23, 2009 meeting with Ambassador, William Cattan, an attorney with Dewey & LeBoeuf, projected that Qatar will continue to scale back on its initial Liquid Natural Gas (LNG) commitment to the U.S.

-- He nevertheless believes Qatar's LNG is competitive in the U.S. market at present prices.

-- He revealed that Qatar had already exhausted the cheapest gas available in the North Field and that future production would involve higher costs.

-- The development of a fully spot market for LNG was unlikely. High fixed costs required the reliable revenue streams provided by long-term (20- to 25-year) contracts.

End Key Points.

¶1. (SBU) On July 23, 2009, Ambassador met with William Cattan, an oil and gas attorney with Dewey & LeBoeuf, to discuss the outlook for Qatar's Liquid Natural Gas (LNG) industry. Mr. Cattan previously worked for one of Qatar's national natural gas companies, RasGas, and has considerable insight into Qatar's place within the industry. An overview of the meeting follows.

QATARI LNG SUPPLIES TO THE U.S.

¶2. (C) Mr. Cattan examined the current status of Qatari LNG sales to the U.S., arguing that Qatar's LNG is competitive in the U.S. market, especially compared to shale oil and gas, which cost twice as much to produce. However, he cautioned that competitiveness is a function of price. At present prices, Qatar's LNG has an advantage over U.S. domestic alternatives, but a higher price would fundamentally change the situation. In fact, Canada technically has more oil than Saudi Arabia when oil is selling at $100 per barrel; this elationship holds for natural gas as well, accordig to Cattan. (Note: In June, Qatar's Energy Miister Abdullah Bin Hamad Al Attiyah told the Ambasador (reftel) that the cost of shipping LNG to he U.S. was a minuscule $1.20 per million btu.)

¶3. (C) Cattan told the Ambassador two U.S. facilties, Golden Pass in Texas and Elba Island in Georgia, possess sufficient re-liquefaction equipment to receive LNG shipments from the processing trains originating at Qatar's Ras Laffan gas center. The Golden Pass facility, associated with Exxon Mobil and Conoco Phillips, presently receives shipments from Train 3 and is slated to receive supplies from Train 6 when

it becomes operational. (Note: The Golden Pass facility is partly owned by the Government of Qatar.) Elba Island, controlled by Shell, will receive shipments from Train 7, which, like Train 6, is not yet producing.

¶4. (C) According to Cattan, RasGas originally committed all of the gas in Trains 6 and 7 -- these trains produce 7.8 metric tons per annum (MTA) -- to the U.S. market, but since then has re-allocated a large portion of this production to other destinations. The trend began five years ago with RasGas' decision to re-direct 5 MTA to the Bahamas out of Trains 6 and 7. Upon hearing the Ambassador's estimate that a total of 3 or 4 trains were allocated to the U.S. market, Cattan said no more than 1 to 1 1/2 trains were likely to reach the U.S. In response to Ambassador's comment that he had heard roughly 1/3 of Qatar's LNG production was slated for the Atlantic Basin, Cattan noted that the quantity would be well below 1/3, adding that the assumption within the LNG industry was that less and less Qatari gas would arrive in the U.S. than previously believed.

DECREASED WORLDWIDE DEMAND

¶5. (C) Cattan addressed the downturn in the energy market, arguing that it hurt Qatar only temporarily. He estimated that demand in Asia -- where demand for LNG has been highest -- dropped 20% over the last year and a half. When demand was high, Asian countries, particularly Japan and South Korea, bought up any excess capacity available at any price.

Now, with "buyers of last resort" scaling back their consumption, he noted consuming countries can manipulate the market to their advantage.

¶6. (C) Still, Cattan emphasized the natural gas market is cyclical and this downturn would only be temporary. When demand and prices rebound, he believed that Qatar would once again be in a commanding position. As Qatar is roughly equidistant from Asia and the Americas, it is well-suited to play the role of a swing producer, moving gas to where it is most needed.

¶7. (C) Although Qatar meets only a small percentage of any given country's energy demand, Qatar's influence derives from the absence of domestic alternatives to the gas it does supply, according to Cattan. Indeed, he found Embassy Doha's estimate that Qatar accounts for no more than 3.5% of any country's energy demand "rather low."

¶8. (C) Cattan believes Qatar is in a strong position to weather the storm in the short-to-mid terms. He agreed with Ambassador's assessment that Qatar can more than offset any decline in prices by increasing the amount of gas it produces. The profit margin for producing natural gas is so large, he said, that fluctuations in prices have only a minor effect on revenues.

LONG-TERM DIFFICULTIES

¶9. (C) In the long-term, however, Cattan does not believe this situation will hold. He pointed out that although rumors Qatar is already running out of gas are unfounded, it is nevertheless true that Qatar is running out of the cheapest, most easily accessible gas. Cattan told the Ambassador that the second generation of gas production in Qatar -- which will begin once the moratorium on new exploration in the North Field is lifted -- will require new technology and financial arrangements, increasing costs and whittling away at the favorable profit margin.

¶10. (C) Cattan remarked that continuing production at present levels as Qatar enters the second generation will require higher market prices. Although he believes the world economy will pick up in the next year, Cattan said the current natural gas market is "oversupplied," which will restrict Qatar's opportunities. He cited Qatar's new terminal in Wales as one instance where Qatar is entering an unfavorable market.

LNG SPOT MARKET

¶11. (C) Ambassador mentioned that the evolution of a spot market for LNG could bolster both Qatar's profits and international influence. In response, Cattan expressed skepticism that a spot market for natural gas would ever develop, as the high fixed costs require guaranteed returns over an extended period of time to sustain profitability. In this sense, there is a trade-off between short-term spot opportunities and the need for long-term security. Contractually speaking, there are also obstacles to an increased reliance on spot sales, he said. Even though Qatar recently concluded a deal with Belgium to increase the flexibility of supply, most of Qatar's agreements involve set amounts on a "take-and-go" basis, noted Cattan.

LeBaron